



Capital Allowances Act 2001

2001 CHAPTER 2

PART 2

PLANT AND MACHINERY ALLOWANCES

[^{F1}CHAPTER 6A

INTERPRETATION OF PROVISIONS ABOUT LONG FUNDING LEASES

[^{F1}Transfers, assignments, novations, leaseback, variations etc

Textual Amendments

- F1** Pt. 2 Ch. 6A inserted (with effect in accordance with Sch. 8 para. 15 of the amending Act) by [Finance Act 2006 \(c. 25\)](#), [Sch. 8 para. 7](#)

70W Transfers, assignments etc by lessor

- (1) This section applies in any case where the following conditions are met—
- a person (the “old lessor”) is lessor of plant or machinery under a plant or machinery lease (the “old lease”),
 - during the term of the lease, the old lessor transfers the plant or machinery to another person (the “new lessor”),
 - the transfer is not the grant of a plant or machinery lease by the old lessor,
 - immediately after the transfer, the new lessor is the lessor of the plant or machinery under a lease (“the new lease”) (whether or not the same lease as the old lease).
- (2) If it is not otherwise the case,—
- the old lessor is to be treated as if the old lease terminated immediately before the transfer, and

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- (b) the new lessor is to be treated as if the new lease had been entered into immediately after the transfer.
- (3) The new lessor is also to be treated as if the date of the transfer were the date of both—
 - (a) the inception of the new lease, and
 - (b) the commencement of the term of the new lease,
 if it is not otherwise the case.
- (4) If, immediately before the transfer, the old lease was (or was treated by virtue of this subsection as being) in the case of the old lessor a lease of either of the following descriptions—
 - (a) a long funding lease, or
 - (b) a lease which is not a long funding lease,
 the new lease is to be treated in the case of the new lessor as being a lease of the same description, if the conditions in subsection (5) are met.
- (5) The conditions are that—
 - (a) the term of the new lease is the unexpired portion of the term of the old lease, and
 - (b) the amounts receivable under the new lease are the same as would have been receivable under the old lease, assuming it to have continued in effect.
- (6) If—
 - (a) it is not otherwise the case, and
 - (b) the conditions in subsection (5) are met,
 the lessee is to be treated as if the old lease and the new lease were the same continuing lease.
- (7) Any reference in this section to a transfer of plant or machinery by a person includes a reference to—
 - (a) any kind of disposal of, or of the person's interest in, the plant or machinery,
 - (b) any arrangements under which the person's interest in the plant or machinery is terminated and another person becomes lessor of the plant or machinery,
 - (c) in a case where the plant or machinery is a fixture and the person is treated under section 176 as the owner, any cessation of ownership under section 188, 190, 191, 192 or 192A.

70X Transfers, assignments etc by lessee

- (1) This section applies in any case where the following conditions are met—
 - (a) a person (the “old lessee”) is lessee of plant or machinery under a plant or machinery lease (the “old lease”),
 - (b) during the term of the lease, the old lessee transfers the plant or machinery to another person (the “new lessee”),
 - (c) the transfer is not the grant of a plant or machinery lease by the old lessee,
 - (d) immediately after the transfer, the new lessee is the lessee of the plant or machinery under a lease (“the new lease”) (whether or not the same lease as the old lease).
- (2) If it is not otherwise the case,—

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- (a) the old lessee is to be treated as if the old lease terminated immediately before the transfer, and
 - (b) the new lessee is to be treated as if the new lease had been entered into immediately after the transfer.
- (3) The new lessee is also to be treated as if the date of the transfer were the date of both—
- (a) the inception of the new lease, and
 - (b) the commencement of the term of the new lease,
- if it is not otherwise the case.
- (4) If, immediately before the transfer, the old lease was (or was treated by virtue of this subsection as being) in the case of the old lessee a lease of one of the following descriptions—
- (a) a long funding lease, or
 - (b) a lease which is not a long funding lease,
- the new lease is to be treated in the case of the new lessee as being a lease of the same description, if the conditions in subsection (5) are met.
- (5) The conditions are that—
- (a) the term of the new lease is the unexpired portion of the term of the old lease, and
 - (b) the amounts payable under the new lease are the same as would have been payable under the old lease, assuming it to have continued in effect.
- (6) If—
- (a) it is not otherwise the case, and
 - (b) the conditions in subsection (5) are met,
- the lessor is to be treated as if the old lease and the new lease were the same continuing lease.
- (7) Any reference in this section to a transfer of plant or machinery by a person includes a reference to—
- (a) any kind of disposal of, or of the person's interest in, the plant or machinery,
 - (b) any arrangements under which the person's interest in the plant or machinery is terminated and another person becomes lessee of the plant or machinery,
 - (c) in a case where the plant or machinery is a fixture and the person is treated under section 176 as the owner, any cessation of ownership under section 188, 190, 191, 192 or 192A.

70Y Sale and leaseback, lease and leaseback etc: lessors

- (1) Where—
- (a) a person (B) transfers plant or machinery to another person (A),
 - (b) the plant or machinery is directly or indirectly leased back to B, and
 - (c) immediately before the commencement of the term of the lease back to B, B is the lessor of the plant or machinery to another person under a lease which is, in B's case, a long funding lease,
- the lease back to B is, in the case of both A and B, a long funding lease.

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- (2) If, in any such case, the plant or machinery is leased back from A to B indirectly, any leases by means of which the indirect lease back from A to B is effected are also long funding leases in the case of each of the parties to them.
- (3) Any reference in this section to a transfer of plant or machinery by a person includes a reference to—
 - (a) any kind of disposal of, or of the person's interest in, the plant or machinery (including the grant of a lease),
 - (b) any arrangements under which the person's interest in the plant or machinery is terminated and another person becomes entitled to, or to an interest in, the plant or machinery,
 - (c) in a case where the plant or machinery is a fixture and the person is treated under section 176 as the owner, any cessation of ownership under section 188, 190, 191, 192 or 192A.

70YA Change in accountancy classification of long funding lease

- (1) This section applies in any case where—
 - (a) a person is lessor or lessee under a long funding lease, and
 - (b) at any time after the inception of the lease, the accountancy classification of the lease as a finance lease^{F2}, an operating lease or a right-of-use lease] changes in the relevant accounts.
- (2) The person is to be treated as if—
 - (a) the lease had terminated immediately before the time of the change,
 - (b) another lease (the “new lease”) had been entered into immediately after the time of the change, and
 - (c) the new lease were a long funding lease in the case of the lessor.
- (3) The person is also to be treated as if the date on which the change occurs were the date of both—
 - (a) the inception of the new lease, and
 - (b) the commencement of the term of the new lease.
- (4) The cases where the accountancy classification of a long funding lease as a finance lease^{F3}, an operating lease or a right-of-use lease] changes at any time (the “relevant time”) in the relevant accounts are those set out in subsections (5) [^{F4}to (6A)].
- (5) Case 1 is where—
 - (a) immediately before the relevant time, the lease is one that falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as a finance lease for accounting purposes, ^{F5}...
 - (b) at the relevant time the lease becomes one that falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as not being a finance lease for accounting purposes [^{F6}and
 - (c) the change of classification is not a relevant change of classification.]
- (6) Case 2 is where—
 - (a) immediately before the relevant time, the lease is one that falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as not being a finance lease for accounting purposes, ^{F7}...

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- (b) at the relevant time the lease becomes one that falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as a finance lease for accounting purposes [^{F8}and
- (c) the change of classification is not a relevant change of classification.]

[Case 3 is where—

- ^{F9}(6A) (a) immediately before the relevant time, the lease is a right-of-use lease which is a long funding finance lease, and
- (b) at the relevant time, the lease becomes one which—
 - (i) is not a right-of use lease, and
 - (ii) falls (or would fall) to be treated in the relevant accounts in accordance with generally accepted accounting practice as not being a finance lease.]

(7) The Treasury may by regulations make provision for or in connection with restricting the application or operation of this section.

(8) In this section, any reference to a finance lease includes a reference to a loan.

(9) In the application of this section in relation to any person, the “relevant accounts” are the accounts—

- (a) of that person, or
- (b) where that person is the lessor, of any person connected with that person, but only to the extent that the treatment of the lease in those accounts as a finance lease or otherwise falls (or would fall) to be determined by reference to that person as the lessor or lessee under the lease.

(10) Subsections (2) and (3) of section 70N (finance lease test: group accounts, and generally accepted accounting practice for persons outside the charge to tax) also apply for the purposes of this section.

[In this section—

- ^{F10}(11) “relevant change of classification” means a change of accountancy classification as a result of the person adopting a different accounting standard or a change to an accounting standard, and
- “accounting standard” means any accounting standard issued or recognised by—
- (a) the Accounting Standards Board (or successor body), or
 - (b) the International Accounting Standards Board (or successor body).]

Textual Amendments

- F2** Words in s. 70YA(1)(b) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(a\)](#)
- F3** Words in s. 70YA(4) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(b\)\(i\)](#)
- F4** Words in s. 70YA(4) substituted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(b\)\(ii\)](#)
- F5** Word in s. 70YA(5)(a) omitted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by virtue of [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(c\)\(i\)](#)
- F6** S. 70YA(5)(c) and preceding word inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(c\)\(ii\)](#)

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- F7** Word in s. 70YA(6)(a) omitted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by virtue of [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(d\)\(i\)](#)
- F8** S. 70YA(6)(c) and preceding word inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(d\)\(ii\)](#)
- F9** S. 70YA(6A) inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(e\)](#)
- F10** S. 70YA(11) inserted (with effect in accordance with Sch. 14 para. 6(1) of the amending Act) by [Finance Act 2019 \(c. 1\)](#), [Sch. 14 para. 1\(4\)\(f\)](#)

70YB Long funding operating lease: extension of term of lease

- (1) This section applies in any case where—
- (a) a person is lessor or lessee under a long funding operating lease (the “existing lease”),
 - (b) an event occurs which has the effect of extending the term of the lease (whether by variation of the provisions of the lease, the grant or exercise of an option or in any other way), and
 - (c) the event is not one by reason of which, within the meaning of section 70YA, the accountancy classification of the lease as an operating lease changes in the relevant accounts.
- (2) For this purpose an event has the effect of extending the term of the lease if it meets any of the following conditions—
- (a) it has the effect of making a further period a non-cancellable period;
 - (b) it is the grant of an option to the lessee to continue to lease the plant or machinery for a further period, where it is reasonably certain at the time the option is granted that the lessee will exercise it;
 - (c) it is the exercise by the lessee of an option to continue to lease the plant or machinery for a further period;
 - (d) it does not fall within the preceding paragraphs, but it has the effect that the lessee will continue, or is reasonably certain to continue, to lease the plant or machinery for a further period.
- For this purpose “further period” means a period falling wholly or partly after the end of the pre-existing term.
- (3) The person is to be treated as if—
- (a) the existing lease terminated at the end of the day before the effective date,
 - (b) another lease (the “new lease”) were entered into on the effective date, and
 - (c) the term of the new lease were the unexpired portion of the term of the existing lease, as extended.
- (4) The person is also to be treated as if the effective date were the date of both—
- (a) the inception of the new lease, and
 - (b) the commencement of the term of the new lease.
- (5) The new lease is to be taken to be a long funding operating lease.
- (6) For the purposes of this section the “effective date” is the earlier of—
- (a) the day after the end of the pre-existing term of the existing lease;
 - (b) if the rentals payable are varied as a result of or otherwise in connection with the event, the date on which the variation takes effect.

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- (7) In this section—
- “non-cancellable period” has the same meaning as in section 70YF (the “term” of a lease);
 - “pre-existing term”, in relation to a lease, means the term of the lease apart from the extension in question.

70YC Extension of term of lease that is not a long funding lease

- (1) This section applies where—
- (a) a person is lessor under a plant or machinery lease (the “existing lease”) that is not a long funding lease, and
 - (b) an event occurs which has the effect of extending the term of the lease (whether by variation of the provisions of the lease, the grant or exercise of an option or in any other way).
- (2) Subsection (2) of section 70YB (events having the effect of extending the term of a lease) also has effect for the purposes of this section.
- (3) Make the following assumptions—
- (a) the existing lease terminates immediately before the effective date,
 - (b) another lease (the “new lease”) is entered into on the effective date,
 - (c) the term of the new lease is the portion of the term of the existing lease, as extended, that remains unexpired as at the effective date;
 - (d) the effective date is the date of both—
 - (i) the inception of the new lease, and
 - (ii) the commencement of the term of the new lease.
- (4) If, on those assumptions, the new lease would be a long funding lease, the person is to be treated on those assumptions.
- (5) If subsection (4) does not apply, then, for the purposes of any subsequent application of this section or section 70YD in the case of the existing lease, the term of the existing lease is to be taken to be the term as extended (or further extended).
- (6) For the purposes of this section the “effective date” is the earlier of—
- (a) the day after the end of the pre-existing term of the existing lease;
 - (b) if the rentals payable are varied as a result of or otherwise in connection with the event, the date on which the variation takes effect.
- (7) In this section “pre-existing term”, in relation to a lease, means the term of the lease apart from the extension in question.

70YD Increase in proportion of residual amount guaranteed: review of status

- (1) This section applies where—
- (a) a person is lessor under a lease (the “existing lease”) that is not a long funding lease,
 - (b) the person enters into an arrangement which meets, or arrangements which (taken together) meet, the conditions in subsection (2).
- (2) The conditions are that—

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- (a) as a result of the arrangement or arrangements, there is an increase, after the inception of the lease, in the proportion of the residual amount that is guaranteed as mentioned in section 70YE(1)(b), and
 - (b) had the arrangement or arrangements been entered into before the inception of the lease, the lease would have been a long funding lease.
- (3) The person is to be treated as if—
- (a) the existing lease had terminated immediately before the time of the relevant transaction,
 - (b) another lease (the “new lease”) had been entered into immediately after the time of the relevant transaction,
 - (c) the term of the new lease were the portion of the term of the existing lease that remains unexpired as at the date of the relevant transaction;
 - (d) the date of the relevant transaction were the date of both—
 - (i) the inception of the new lease, and
 - (ii) the commencement of the term of the new lease.
- (4) For the purposes of this section, the “relevant transaction” is the arrangement or, where two or more arrangements have been entered into, the latest of them.
- (5) The Treasury may by regulations make provision for or in connection with restricting the application or operation of this section.]

Changes to legislation:

There are currently no known outstanding effects for the Capital Allowances Act 2001, Cross
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